

# Italian Annex

## **PSA/ISMA Global Master Repurchase Agreement**

### **Supplemental terms and conditions for transactions in Italian Domestic Purchased Securities**

#### **ANNEX I Part 3**

1. In the event of Repurchase Transactions or Buy/Sell Back Transactions in Domestic Purchased Securities (as defined below) or in Italian Bonds (as defined below) whether or not such Italian Bonds fall within the definition of Domestic Purchased Securities, the following provisions shall apply and, where in conflict with any other term of the Agreement, including Annex III of the Agreement, they shall prevail.

2. The following definition shall be added to paragraph 2 of the Agreement:

“Domestic Purchased Securities” means Purchased Securities, which are issued in Italy whether or not the issuer thereof is incorporated in Italy or has a presence in Italy.

3. The following definitions shall replace the corresponding definitions contained in paragraph 4 of Annex III of the Agreement:

(i) “Accrued Interest”, with respect to any Domestic Purchased Securities unpaid Income that has accrued during the period from (and excluding) the issue date or the last Income Payment Date (whichever is the later) in respect of such Domestic Purchased Securities to (and including) the date of calculation. For these purposes unpaid Income shall be deemed to accrue on a daily basis from (and excluding) the issue date or the last Income Payment Date (as the case may be) to and including the next Income Payment Date or the maturity date (whichever is the earlier).

(ii) “Sell Back Differential”, with respect to any Transaction in Domestic Purchased Securities as of any date, the aggregate amount obtained by daily application of the Pricing Rate for such Transaction (on a 360 day basis unless otherwise agreed between the parties for the Transaction) to the sum of (a) the Purchase Price and (b) Accrued Interest paid on the Purchase Date for such Transaction for the actual number of days during the period commencing on (and excluding) the Purchase Date for such Transaction and ending on (and including), the date of calculation.

4. The settlement method in relation to Transactions in Domestic Purchased Securities shall be “in the clearing” (giornaliera titoli) unless the parties in the relevant Confirmation agree that such settlement method shall be “over the counter” (Conto Accentrato Titoli (CAT) copertura giornaliera) (such terms having the meanings specified in the relevant regulations issued by the Bank of Italy).

5.(a) In connection with a Transaction in Domestic Purchased Securities, if Seller fails to deliver Domestic Purchased Securities to Buyer on the Purchase Date or Buyer fails to deliver Securities equivalent to Domestic Purchased Securities on the Repurchase Date and Buyer or, as the case may be, Seller (the affected party) elects to terminate the Transaction in accordance with paragraph 10(e)(iii) or, as the case may be paragraph 10(f)(iii) of the Agreement, the parties agree that for the purposes of paragraph 10(c):

- (i) if the affected party has at any time in the period beginning on the date on which the failure occurred and ending at the Default Valuation Time, purchased, whether by way of a repurchase transaction, buy and sell back transaction or otherwise, Securities forming part of the same issue and being of an identical type and description as those Purchased Securities or Equivalent Securities and in substantially the same amount as those Securities, the affected party shall, to the extent that it does not fall within paragraph 2(j), treat the cost of such purchase (including all reasonable costs, fees and expenses incurred in connection therewith) as the Default Market Value of those Securities;
  - (ii) in calculating the Default Market Value, reasonable costs and expenses incurred in connection with a purchase of Securities under paragraph 2(j)(ii)(aa) or (bb) shall include:
    - (aa) any costs imposed by the Bank of Italy as a result of the failure; and
    - (bb) an amount equal to interest on the amount of any deposit which the affected party is required to make with the Bank of Italy at the greater of the Pricing Rate for the relevant Transaction and EURIBOR (on a 360 day basis unless otherwise agreed by the parties to the Transaction) which shall be payable by the other party to the affected party.
- (b) If Buyer fails to deliver Equivalent Securities to Seller on the applicable Repurchase Date, Seller may by written notice to the other party, elect to adjust the Transaction in accordance with sub-paragraph (c) below.
- (c) The adjustment of a Transaction (the Original Transaction) under this sub-paragraph shall be effected as follows. The Original Transaction shall be terminated on the Repurchase Date for the Original Transaction and the parties shall be deemed to enter into a new Transaction (the Replacement Transaction) in accordance with the following provisions:
  - (i) the Purchase Date under the Replacement Transaction shall be the Repurchase Date under the Original Transaction;
  - (ii) the Purchased Securities under the Replacement Transaction shall be Securities equivalent to the Purchased Securities under the Original Transaction;
  - (iii) the Purchase Price under the Replacement Transaction shall, unless otherwise agreed, be the Market Value of the Purchased Securities for that Transaction on the Purchase Date for the Replacement Transaction as determined by Seller;
  - (iv) the Pricing Rate under the Replacement Transaction shall, unless otherwise agreed, be minus five per cent.;
  - (v) the Repurchase Date under the Replacement Transaction shall be the Business Day following the Purchase Date under the Replacement Transaction;

- (vi) the Margin Ratio and, subject as aforesaid, the other terms of the Replacement Transaction shall, unless otherwise agreed, be identical to those of the Original Transaction; and
  - (vii) the obligations of the parties with respect to the delivery of the Purchased Securities and the payment of the Purchase Price under the Replacement Transaction shall be set off against their obligations with respect to the delivery of Equivalent Securities and payment of the Repurchase Price under the Original Transaction and accordingly only a net cash sum shall be paid by one party to the other. If such net sum is payable by Seller to Buyer, that sum shall be payable on the Repurchase Date under the Replacement Transaction.
- (d) If on the Repurchase Date for any Transaction Buyer delivers to Seller part only of the Equivalent Securities which it should have delivered (the Delivered Securities and the part of the Equivalent Securities which Buyer has failed to deliver being the Undelivered Securities) Seller shall not be obliged to accept delivery of the Delivered Securities but instead may elect to terminate that Transaction in accordance with paragraph 10(f)(iii) of the Agreement, in which case sub-paragraph (a) above shall apply. If Seller does accept delivery of the Delivered Securities, the provisions of sub-paragraph (e) below shall apply.
- (e) Where this paragraph applies, the Transaction (the Terminated Transaction) shall be terminated. Upon such termination, Buyer shall transfer to Seller or its agent the Delivered Securities against payment by Seller of the proportion of the Repurchase Price which corresponds to the Delivered Securities and the parties shall be deemed to enter into a new Transaction on the following terms:
- (i) the Purchase Date under the new Transaction shall be the Repurchase Date under the Terminated Transaction;
  - (ii) the Purchased Securities under the new Transaction shall be Securities equivalent to the Undelivered Securities;
  - (iii) the Purchase Price under the new Transaction shall be the Market Value of the Undelivered Securities at the Purchase Date under the new Transaction as determined by Seller;
  - (iv) the Repurchase Date under the new Transaction shall be the Business Day following the Purchase Date under the new Transaction;
  - (v) the Pricing Rate under the new Transaction shall, unless otherwise agreed, be minus five per cent.;
  - (vi) the Margin Ratio and, subject as aforesaid, the other terms of the new Transaction shall, unless otherwise agreed, be identical to those of the Terminated Transaction; and
  - (vii) the obligations of the parties with respect to the delivery of the Undelivered Securities and the payment of that part of the Repurchase Price which corresponds to the Undelivered Securities under the Terminated Transaction shall be set off against their obligations with respect to the delivery of the Purchased Securities and the payment of the Purchase Price under the new Transaction and accordingly only a net cash sum shall be paid by Seller to Buyer. If such net sum is payable by Seller to Buyer, that sum shall be payable on the Repurchase Date under the new Transaction.

**6.** Transactions in Domestic Purchased Securities between an Italian resident and a counter party which is not resident in Italy for Italian tax purposes (but excluding the foreign branches of entities incorporated in Italy) where the non-Italian party is Buyer, are subject to the then applicable withholding tax in accordance with the following formula applied to the amount of capital gains (as resulting from the following formula) realised unless otherwise provided in any applicable tax treaty.

$$(Pssnt - Pssnp) \times Awtr \times (360/gg) \times (100/Pssnp)$$

Pssnt = Prezzo supersecco netto a Sell Back Price net of accrued interest and matured original issue discount  
termine

Pssnp = Prezzo supersecco netto a Purchase price net of accrued interest and matured original issue discount  
pronti

Awtr = Tasso della ritenuta Applicabile withholding tax rate  
d'imposta applicabile

gg = giorni di durata del number of days in the transaction (excluding the date of purchase and including the date of Buy/Sell Back sell back).

To the extent that the withholding tax referred to above is applicable to Buyer and Seller is required to pay the amount of such withholding tax to the Italian tax authorities, Seller shall be entitled to deduct the amount of such tax from the Repurchase Price or, within ten days of the demand of Seller to make the relevant payment, Buyer shall reimburse Seller in respect of the amount required to be paid by it. Seller shall, upon demand by Buyer, provide Buyer with appropriate evidence of the amount of tax deducted and paid to the Italian tax authorities as Buyer may reasonably require to obtain any tax relief under any applicable tax treaty or to obtain any tax credit in respect of its income in the country in which it is resident or out of which it is acting.

**7.** Paragraphs 3, 4(iii) and 5 to 13 (inclusive) of Annex III of the Agreement shall apply to Buy/Sell Back Transactions in Domestic Purchased Securities as if:

- (a) references to Buy/Sell Back Transactions shall be construed as references to Buy/Sell Back Transactions in Domestic Purchased Securities; and
- (b) references to Purchased Securities shall be construed as references to Domestic Purchased Securities.

**8.** Unless otherwise agreed:

- (a) paragraph 5 of the Agreement shall apply without modification in respect of any payment of Income in respect of Italian Bonds which could be received without a withholding or deduction on account of Italian tax being made at source by an owner of such Italian Bonds which is a body corporate resident in Italy or in one of the jurisdictions listed in Decree of the Minister of Finance of the Republic of Italy dated 4th September, 1996 issued pursuant to Legislative Decree no. 239 of 1<sup>st</sup> April, 1996 having an appropriate double tax treaty with Italy (whether or not either of the parties is such a body corporate);

- (b) paragraph 5 of the Agreement shall be modified, in its application to any payment of Income in respect of Italian Bonds other than such a payment falling within sub-paragraph (a) above, by deducting from the amount required to be transferred or credited under that paragraph an amount equal to any amount which would, on the assumption that Buyer owned the Italian Bonds at the relevant Income Payment Date, be withheld or deducted at source on account of Italian tax;
- (c) in relation to Buy/Sell Back Transactions in Italian Bonds, the amount "IR" in the formula for computing the Sell Back Price pursuant to paragraph 4(iii)(y) of Annex III of the Agreement shall be calculated on the same basis as the amount required to be transferred or credited pursuant to paragraph 5 is calculated in accordance with sub-paragraphs (a) and (b) above;
- (d) without prejudice to the provisions set out in the final sentence of paragraph 6 above in this Annex I, neither party shall be obliged to deliver or transfer to the other, or to account to the other for, any tax credits or refunds to which it may become entitled in respect of Income on Italian Bonds; and
- (e) paragraph 11 (Tax Event) shall not apply to any Transaction by virtue of any Italian Bonds ceasing to be Securities in respect of which a deduction or withholding on account of Italian tax is required to be made in respect of a payment of Income to such an owner as is referred to in sub-paragraph (a) above.

For the purposes of this paragraph "Italian Bonds" means any Securities which are issued by the Italian government or local authorities (or the Securities which for Italian tax purposes are treated likewise) or by other entities and to which the provisions of Legislative Decree no. 239 of 1<sup>st</sup> April, 1996, as amended, granting a special tax treatment will apply.

## **PSA/ISMA GLOBAL MASTER REPURCHASE AGREEMENT (1995 VERSION)**

### **Guidance notes to Annex I Part 3 – Italy (the “Italian Annex”)**

**(18 July 2000 version)**

These guidance notes -

- are designed to provide users of the Italian Annex with information on its content;
- do not form part of the Italian Annex or the Agreement; and
- summarise certain, but not all, of the provisions of the Italian Annex.

#### **Purpose and scope**

1. The Italian Annex is intended to apply in all Transactions relating to Domestic Purchased Securities (as defined in paragraph 2 of the Italian Annex), which are essentially constituted by securities which are issued in Italy whether or not the issuer is incorporated in Italy or has a presence in Italy.

#### **Single Confirmation for a Buy/Sell Back Transaction**

2. Under Italian market practice, a Buy/Sell Back Transaction is treated as a single combined transaction not divisible into its components. For this reason, the confirmation in respect of a Buy/Sell Back Transaction is in the form of a single document covering both the purchase and the resale of Securities.

#### **Definition of “Accrued Interest”**

3. The Italian Annex contains a definition of Accrued Interest applicable to Domestic Purchased Securities. For Accrued Interest with respect to Domestic Purchased Securities the calculation of Income is made excluding the issue date, but including the next Income Payment Date or the last Income Payment Date, as the case may be, in accordance with the current rules applicable in Italy to these calculations following the introduction of the euro.

#### **Definition of “Sell Back Differential”**

4. The Italian Annex contains a definition of “Sell Back Differential” for any Transaction in Domestic Purchased Securities which reflects the fact that the calculation of Accrued Interest paid on the Purchase Date for such a Transaction is made excluding the Purchase Date, but including the next Income Payment Date or the last Income Payment Date, as the case may be, in accordance with the current rules applicable in Italy to these calculations following the introduction of the euro.

#### **Settlement method**

5.1 A Buy/Sell Back Transaction under the Italian Annex may be settled either “in the clearing” (giornaliera titoli), which is the normal settlement method, or “over the

counter" (Conto Accentrato Titoli (CAT) copertura giornaliera), which is a settlement system that is used only in exceptional circumstances.

5.2 However a Buy/Sell Back Transaction under the Italian Annex shall only be settled "over the counter" if the parties agree beforehand and specify in the relevant Confirmation that the "over the counter" settlement method shall apply.

### **Late Delivery of Securities or Equivalent Securities.**

6.1 In the Italian market there is no practice for late delivery of Securities or Equivalent Securities as the Bank of Italy does not accept performance other than in the exact terms of the agreement and may impose heavy sanctions in case of delayed or failed delivery. Italian market participants have therefore deemed it necessary to provide that the party who has failed to deliver Securities or Equivalent Securities should have additional remedies. Paragraph 5 of the Annex makes clear that, where the innocent party terminates the Transaction, that party is entitled to recover all the costs associated with the termination, including interest foregone on any deposit which the innocent party is required to make with the Bank of Italy.

6.2 As an alternative to terminating the Transaction, the innocent party may elect to "roll over" the Transaction in whole or in part. This is achieved by terminating the original transaction and entering into a replacement transaction. The pricing rate for the replacement transaction is minus five per cent., unless the parties agree otherwise.

### **Withholding Tax**

7.1 Paragraph 6 of the Italian Annex reflects that Italian withholding tax may be required to be applied to the capital gains realised as a result of Transactions in Domestic Purchased Securities and/or Italian Bonds. In such a case, the party which is required to pay the amount of withholding tax is entitled to deduct the amount of the withholding from the Repurchase Price or to obtain reimbursement of that amount from the other party within ten days of demand. The agreed Pricing Rate is adjusted by the application of a formula set out in paragraph 6 to give a new Pricing Rate which in turn gives a new Sell Back Price, taking into account the applicable withholding tax rate.

7.2 Paragraph 6 also provides that a party that has made a deduction in respect of withholding tax must, upon request, provide to the other party appropriate evidence of the payment to the Italian tax authorities of the amount deducted in order to assist the other party in obtaining any tax relief or tax credit available under any applicable tax treaty or under the local law of the country of which the other party is a resident or out of which it is acting.

7.3 Where withholding tax applies, parties should specify in the confirmation the basis upon which the Pricing Rate is calculated (i.e. net or gross of withholding tax on capital gains) in order for the basis of calculation to be clear.

### **Italian Bonds**

8.1 Coupons on certain Italian Bonds (including bonds issued by the Italian government, Italian banks or by corporate entities listed on the Italian stock exchange) are payable gross to Italian resident corporate holders and non-resident corporate holders who are resident in a jurisdiction with an appropriate double tax



treaty with Italy containing an “exchange of information” provision. The language is designed to ensure that (i) a paragraph 5 payment in relation to a Repurchase Transaction is made gross and (ii) the adjustment to the Purchase Price made in a Buy/Sell Back Transaction pursuant to the formula in paragraph 2(iii)(y) of Annex III (Buy/Sell Back Transaction) is made gross.

8.2 Paragraph 8 of the Annex also provides that paragraph 11 of the Agreement, which enables transactions to be terminated in the case of certain tax events, should not apply to a transaction by virtue of the transition of eligible Italian bonds to a gross paying position.

8.3 Paragraph 8 of the Annex does not attempt to address any other consequences, e.g. in relation to Italian tax, which might arise in relation to transactions in Domestic Purchased Securities or Italian Bonds. Users of the Agreement will wish, where relevant, to check such consequences for themselves.